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Message Text

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ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 CIAE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 USIA-06
AID-05 COME-00 EB-08 FRB-03 XMB-02 OPIC-03 LAB-04
SIL-01 OMB-01 STR-07 CEA-01 NEA-10 IO-13 AGRE-00
/117 W
----------057209 311209Z /11
R 310857Z MAR 78
FM AMEMBASSY MANILA
TO SECSTATE WASHDC 3736

C O N F I D E N T I A L SECTION 1 OF 2 MANILA 5123

USADB

PASS TREASURY FOR NACHMANOFF

E.O. 11652: GDS
TAGS: EAID, EFIN, VM
SUBJECT: ADB RELATIONS WITH VIETNAM REACH CRITICAL STAGE

1. PRESIDENT YOSHIDA ASKED TO SEE ME ON AFTERNOON OF MARCH 30 TO DISCUSS THE ISSUE OF THE BANK'S RELATIONS WITH VIETNAM. VICE PRESIDENTS KATZ AND BAMBAWALE ALSO WERE PRESENT.

2. PRESIDENT STATED THAT VIETNAM HAD PAID ITS OBLIGATIONS IN FULL TO THE BANK THROUGH NOVEMBER 30 AND NOW WAS BALKING AS MATTER OF PRINCIPLE ON PAYING THE ADDITIONAL CURRENTLY DUE $65,000, UNTIL ITS SUSPENDED PROJECTS WERE REACTIVATED. YOSHIDA STATED THAT HE WOULD BE MEETING WITH THE VIET-NAMESE GOVERNOR IN VIENNA TO DISCUSS THIS QUESTION AND ATTEMPT TO PERSUADE HIM TO MAKE PAYMENT PRIOR TO THE BOARD'S CONSIDERATION OF THE REACTIVATION OF THE SAIGON POWER LOAN PROJECT WHICH COULD BE VOTED UPON IN JUNE. PRESIDENT YOSHIDA EXPECTED VIETNAM STRONGLY TO OPPOSE THIS APPROACH
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AND ASKED ME WHAT I THOUGHT THE U.S. ATTITUDE WOULD BE TO THE VIETNAMESE PROPOSAL OR TO THE PRESIDENT'S COMPROMISE WHICH WOULD CALL FOR A SIMULTANEOUS REACTIVATION OF THE SAIGON LOAN AND THE PAYMENT OF THE VIETNAMESE ARREARAGES.

3. I NOTED THAT THE QUESTION WAS UNEXPECTED AND THAT OF COURSE IN ANY EVENT, I WOULD BE OBLIGED TO OPPOSE THE

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BANK'S REACTIVATION OF THE CREDIT. MY PERSONAL REACTION
WAS THAT AN ARRANGEMENT, SUCH AS THAT PROPOSED BY VIETNAM
OR EVEN THE PRESIDENT (THE SIMULTANEOUS ARRANGEMENT)
WOULD GO DOWN BADLY IN WASHINGTON. I NOTED THAT IN CON-
SIDERING THE QUESTION OF HANOI'S ASSUMPTION OF THE SAIGON
SEAT IN THE BANK, WE HAD STATED THAT HANOI WOULD BE
REQUIRED TO LIVE UP TO ALL THE OBLIGATIONS OF THE BANK
AND CERTAINLY NOT BEING IN DEFAULT WAS SUCH AN
OBLIGATION; ALSO IMPLICIT WAS THE EXPECTATION THAT HANOI
WOULD NOT RECEIVE ANY SPECIAL CONSIDERATION; THAT ITS
PRESENT ATTITUDE COULD ONLY BE REGARDED AS ESTABLISHING
A QUID PRO QUO FOR THE REACTIVATION OF THE LOAN, WHICH I
THOUGHT WOULD BE VERY POORLY REGARDED.

4. YPSHIDA STATED THAT HE UNDERSTOOD MY POSITION, BUT
THAT IT WAS NECESSARY ALSO TO CONSIDER THE SITUATION FROM
THE VIEWPOINT OF THE VIETNAMESE. THEY ARE CONVINCED
THAT THE BANK HAS DELIBERATELY STALLED ON THE REACTIVATION
OF THEIR LOANS (WHICH PRESIDENT YOSHIDA SAID OF COURSE
IS TRUE), AND THAT THERE NOW APPEARS TO BE CONSIDERABLE
MISTRUST OF THE BANK IN THE RULING CIRCLES IN HANOI.
IN RESPONSE, I NOTED THAT THERE WERE SUFFICIENT TECHNICAL
REASONS TO POSTPONE THE REESTABLISHMENT OF THE OLD CREDIT
LINES. IN ANY EVENT,AQUIESCENCE TO THE VIETNAMESE
POSITION OR EVEN A COMPROMISE ALONG THE LINES CONTEMPLATED
BY THE PRESIDENT COULD ONLY ENDANGER FUTURE U.S. APPROPRI-
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ATIONS TO THE ADF AND EVEN TO THE ADB ITSELF.

5. I URGED VERY STRONGLY THAT IT WOULD BE IN THE
INTEREST OF THE BANK FOR IT TO ATEMPT TO PERSUADE VIETNAM
TO FULFILL ITS PAYMENTS WITHOUT INSISTING ON A DIRECT
QUID PRO QUO.

6. PRIOR TO HIS CONVERSATION WITH ME, THE PRESIDENT HAD
DISCUSSED THE QUESTION INFORMALLY WITH OTHER DIRECTORS.
REPORTEDLY, ALL EXPRESSED SYMPATHY WITH THE VIETNAMESE
POSITION ALTHOUGH TO A GREATER OR LESSER DEGREE THEY
DISLIKED THE IDEA OF THE LOAN BEING PROVIDED BY THE BANK
UNDER THE CONDITIONS SET DOWN BY VIETNAM. AT LEAST TWO
INDICATED THE BANK SHOULD NOT LEND TO A COUNTRY WHEN IT
WAS TECHNICALLY IN DEFAULT, ALTHOUGH I AM TOLD LENDING
CONTINUED TO PAKISTAN AFTER THE PARTITION, WHEN PAKISTAN
WITHHELD PAYMENTS FOR LOANS IN WHAT IS NOW BANGLADESH.

7. THE AUSTRALIAN, CANADIAN, AND JAPANESE DIRECTORS
PROVIDED THE PRESIDENT WITH THE FOLLOWING PROPOSED SCENARIO.

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ACTION TRSE-00

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USIA-06 AID-05 COME-00 EB-08 FRB-03 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 STR-07 CEA-01 NEA-10
AGRE-00 /117 W
----------057317 311211Z /10
R 310857Z MAR 78
FM AMEMBASSY MANILA
TO SECSTATE WASHDC 3737

C O N F I D E N T I A L SECTION 2 OF 2 MANILA 5123

USADB

PASS TREASURY FOR NACHMANOFF

FIRST CHOICE 1) THE PRESIDENT SHOULD PROVIDE THE VIETNAMESE WITH AN EARLY AND PRECISE DATE AS TO WHEN THE BANK WOULD REACTIVATE THE SAIGON POWER LOAN;
2) THE PRESIDENT WOULD GIVE AN EARLY AND PRECISE DATE AS TO WHEN IT WILL SEND MISSIONS TO VIETNAM CONCERNING THE REACTIVATION OF THE OTHER SUSPENDED PROJECTS;
3) IN TURN VIETNAM WOULD IMMEDIATELY RESUME PAYMENT ON ALL OUTSTANDING LOAN PAYMENTS.

8. AS A FALL BACK POSITION, LETTERS WOULD BE EXCHANGED BETWEEN THE PRESIDENT AND THE VIETNAM GOVERNOR WHICH WOULD CALL FOR THE SIMULTANEOUS RESUMPTION OF PAYMENT OF ALL LOANS UPON THE REACTIVATION OF THE SAIGON POWER PROJECT.

9. A SECOND FALLBACK, WHICH THEY WOULD WISH TO SEND BACK TO THEIR CAPITALS FOR APPROVAL WOULD CALL FOR VIETNAM TO PAY ITS OUTSTANDING DEBT ON THE SAIGON POWER
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PROJECT WHEN THAT IS APPROVED BY THE BANK, AND AT THE

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SAME TIME HAVE VIETNAM ACKNOWLEDGE ITS OBLIGATIONS ON
THE OUTSTANDING LOANS DUE ON THE OTHER OUTSTANDING PROJECTS.

10 THE ACTUAL POSITION CONCERNING THE OUTSTANDING LOANS
SEEMS TO BE AS FOLLOWS. ELEVEN LOANS WERE PROVIDED TO THE
FORMER SAIGON GOVERNMENT COVERING NINE PROJECTS. OF THE
NINE PROJECTS, ONE, A FISHERIES PROJECT WAS COMPLETED
AND THE HANOI AUTHORITIES CONTINUE TO SERVICE ITS PAYMENTS
FULLY. THREE LOAN PROJECTS WERE NEVER ACTIVATED AND SO
THE QUESTION OF PAYMENT DOES NOT ARISE. OF THE FIVE
REMAINING PROJECTS, VIETNAM APPEARS TO BE THINKING A
CANCELING A TELECOMMUNICATIONS PROJECT AND
REPORTEDLY IS PREPARED TO PAY ALL ITS ARREARAGES ONCE
IT DOES SO. THREE IRRIGATION PROJECTS HAVE NOT YET
BEEN REAPPRAISED BY THE BANK, AND IT IS ON THESE PROJECT
LOANS THAT VIETNAM STATES IT WILL NOT MAKE FUTURE LOAN
PAYMENTS UNTIL THEY ARE REAPPRAISED AND REACTIVATED.
THE SAME POSITION HOLDS ON THE SAIGON POWER PROJECT
WHICH HAS BEEN REAPPRAISED BY THE ADB AND WHICH WOULD
BE COMING BEFORE THE BOARD FOR DECISION IN JUNE.

11. MISSION COMMENT

ALTHOUGH THE PRESIDENT DID NOT MAKE IT CLEAR IN HIS
CONVERSATION WITH ME, IT IS CLEAR THAT THE VIETNAM
AUTHORITIES STATE THAT THEY WILL ONLY MAKE PAYMENT ON
A SUSPENDED LOAN ONCE IT IS REACTIVATED AND NOT WHILE
IT REMAINS IN SUSPENSE.

12. I HAVE JUST BEEN INFORMED THAT FOLLOWING HIS CONVER-
SATION WITH ME, THE PRESIDENT HAS DECIDED TO SEND A LETTER TO
THE VIETNAMESE GOVERNOR TO BE HAND CARRIED BY THE VIETNAMESE
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ALTERNATE DIRECTOR REITERATING THAT THE BANK BELIEVES IT
ESSENTIAL THAT ALL ARREARAGES BE PAID UP BEFORE ANY LOANS CAN BE
REACTIVATED. HE IS FEARFUL, HOWEVER, THAT VIETNAMESE
WILL REMAIN ADAMANT.

13. IT IS OBVIOUSLY IMPORTANT THAT SECRETARY BLUMENTHAL
BE THOROUGHLY BRIEFED ON THIS ISSUE, WHICH UNDOUBTEDLY
WILL BE RAISED BY THE PRESIDENT DURING THEIR BILATERAL CON-
VERSATION. PRESIDENT YOSHIDA ALSO CONCERNED THAT
VIETNAMESE GOVERNOR MIGHT RAISE SUBJECT STRONGLY IN HIS
SPEECH AND THUS OPEN SUBJECT TO PUBLIC SCRUTINY AND
POSSIBLE DEBATE.
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